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UniCredit S.p.A (UNCRY) Q1 2025 Earnings Call Transcript

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Q1: 2025-05-12 Earnings Summary

EPS of $1.01 beats by $0.12 | Revenue of $7.26B (6.01% Y/Y) beats by $445.32M

UniCredit S.p.A (OTCPK:UNCRY) Q1 2025 Results Conference Call May 12, 2025 4:00 AM ET

Company Participants

Magda Palczynska - Head of Investor Relations
Andrea Orcel - Chief Executive Officer
Stefano Porro - Chief Financial Officer

Conference Call Participants

Andrea Filtri - Mediobanca
Marco Nicolai - Jefferies
Delphine Lee - JPMorgan
Britta Schmidt - Autonomous Research
Pamela Zuluaga - Morgan Stanley

Operator

Good morning, ladies and gentlemen. Before I hand over to Magda Palczynska, Head of Investor Relations, a reminder that today's call is being recorded. Madam, you may begin.

Magda Palczynska

Good morning, and welcome to UniCredit's First Quarter 2025 Results Conference Call. Andrea Orcel, our CEO, will take you through the presentation. This will be followed by a Q&A session with Andrea and Stefano Porro, our CFO. [Operator Instructions].

With that, I'll hand over to Andrea.

Andrea Orcel

Good morning. Before I take you through our results, strategy and prospects, I would like to take this opportunity to thank, once again, our people, the true engine of UniCredit, whose passion, dedication, hard work and excellence make this possible quarter after quarter.

Q1 2025 marks the beginning of Phase 2 of UniCredit Unlocked, unlocking acceleration. While we continue to optimize our operating model, we are now focused on fully leveraging our structural commercial strengths to drive top line growth. This quarter's result, well ahead of our plan across all KPIs, confirm the resilience of our core business, the depth of our transformation and the strength of our future trajectory.

Our performance is anchored on 3 pillars. First, financial strengths. Q1 marks the best quarter in our history, solidifying our record of quality delivering across all KPIs, building a significant buffer to improve our own projection for 2025 while increasing our lines of defense. This meaningfully differentiates us our present and expected future performance versus that of our peers.

Second, structural strengths. We operate a unique pan-European platform, diversified across countries, client segments and business lines. This gives us reach and resilience, allowing us to reallocate capital towards the highest return opportunities while absorbing local volatility and delivering both quality growth and distributions.

Third, our ever-evolving transformation. Between '21 and '24, we focused on redesigning and streamlining our operating machine, while rebuilding and reigniting our commercial one. We are now shifting to acceleration, optimizing our operating machine while accelerating our commercial machine by targeting the right geographies, the right client segments, the right channels and the right products.

While the macroeconomic environment remains challenging, our disciplined execution and solid foundation give us confidence. Our previous guidance included softer net operating profit through '25 due to normalizing rates and cost of risk, with improvement weighted towards Q4, also due to lesser nonoperating charges.

This, along with returning excess capital, was expected to keep net income and return on tangible equity broadly in line with '24 and ensure higher distributions than '24. That trajectory for the next 3 quarters remains unchanged. However, our outperformance in Q1 across nonoperating profit, net income, return on tangible equity and organic capital generation allows us to upgrade our 2025 guidance.

We now expect to exceed '24 net income and RoTE with distribution above last year by more than initially anticipated, benefited from higher net profit growth. Should this momentum continue into Q2 and early Q3, we will consider further upgrades to our guidance.

Our ambitions for '26-'27 and beyond are unchanged, but we approach them with even greater confidence. This is a story of organic quality profitable growth and distribution unmatched in Europe, strengthened by selective inorganic opportunities but will only be pursued if they enhance our already best-in-class stand-alone case.

Q1 '25 marked a historic milestone for UniCredit. We delivered record results across all KPIs, further improved their quality and further strengthened our capital, asset quality, liquidity and lines of defense. Net revenue increased 3.2% with excellent fee generation more than compensating net NII decline, all further boosted by trading.

NII RoAC increased to 20%, best-in-class. Fees grew to 36% of total revenues, while on their way to 40%. We reduced cost by 1.3% at constant perimeter, almost compensating the impact from first-time consolidation; reducing our stated cost-to-income ratio to 35.4%, beating peers by a significant margin. We grew net revenue over RWAs to 9.2%, while absorbing the bulk impact, generating EUR 3.1 billion of capital organically and EUR 5.3 billion overall.

Net profit increased 8.3% to EUR 2.8 billion at an industry record 22% return on tangible equity, unadjusted from our significant excess capital. Adjusted for that excess capital at 13% CET1, our return on tangible equity would have been 26%. Our profitable growth allowed us to offset the impact from Basel, accrue 100% of net income in distribution while increasing our CET1 ratio to 16.1%, 16.6%, excluding the accrued SBB.

Our per share growth is even more impressive. EPS, up 18%. Dividend per share, up 46%, tangible book per share, up 17%, including dividends. We achieved Q1 results while maintaining our EUR 3 billion buffers intact, EUR 1.3 billion nonoperating items and EUR 1.7 billion of overlays, and increasing NPE coverage by 1 percentage point and our excess capital to EUR 8.5 billion to EUR 10 billion or circa EUR 7.5 billion, excluding the more volatile elements. So we stand prepared for the future. This is the result of a deliberate strategic transformation, which balances delivering in the short term with continued investments supporting long-term performance. This position UniCredit as a benchmark for banking.

We grew our net revenues by 3.2% year-on-year and 14.6% quarter-on-quarter without compromising quality, as proven by strong fee growth more than offsetting expected NII decline. Combined net NII and fee grew 1.6% year-on-year. Trading contribution continues to be positive, as we offer essential hedging to our clients in FX, in rates and commodities, leveraging our unique pan-European network. 2/3 of our trading was client-driven in that area with the remainder resulting from strong performance of our treasury and investment portfolio.

Cost of risk remained benign at 8 basis points. NII showed resilient profitability driven by positive margins and benign cost of risk. UniCredit maintained discipline even as other banks, particularly M&A targets, pushed for higher volumes and drove pricing to value-destructive levels. Our unwavering focus on EVA-positive volumes over volumes at any cost is delivering as our net NII trajectory is better than the sector, while its profitability is significantly greater, reaching a best-in-class RoAC of 20%. We continue to have excellent pass-through management with the average in the quarter down 1.3 percentage points to 32.6%.

Magda Palczynska UniCredit S.p.A. – Head of Group Investor Relations

We're just going to pause the call for 5 minutes while the audio is resolved. Sorry, just a moment, please.

Okay. Thank you, everyone. We'll restart. Apologies for that.

Andrea Orcel

Apologies. We are on Slide 4 and for anything you missed in the first part of the presentation, we'll take questions later. So we start from Slide 4. We grew our net revenues by 3.2% year-on-year and 14.6% Q-on-Q without compromising quality, as proven by strong fee growth, more than offsetting expected NII decline. Combined net NII and fees grew 1.6% year-on-year. Trading contribution continues to be positive as we offer essential hedging to our clients in FX, rates and commodities, leveraging our unique pan-European network. 2/3 of our trading was client-driven with the remainder resulting from strong performance of our treasury and investment portfolio.

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We continue to have excellent pass-through management with the average of -- in the quarter down 1.3 percentage points to 32.6%. Asset quality remains strong and stable. Our gross and net NPE ratio remained respectively at 2.6% and 1.4% with coverage increasing 1 percentage point Q-on-Q to 47%. Cost of risk remains structurally low at 8 basis points, broadly flat versus the first quarter of '24 and down significantly on Q4 due to the prudent approach we took to further reinforce our strong coverage on a number of files.

While we increased coverage, we're still benefiting from write-backs, confirming quality origination and conservative provisioning. We maintain our EUR 1.7 billion overlays impact. They will act as a buffer against any potential deterioration in asset quality. No other institution has this level of absolute and relative overlays and has delivered this benign cost of risk without ever touching them, but rather increasing them.

Our default rate is down to 0.9%. Our fee income reached a new record, growing 8.2% year-on-year and remarkable 16.5% quarter-on-quarter. Of particular note is the breadth of this growth across fee category and regions. Investment-related fees rose 13% year-on-year, insurance 5%, with non-life up 14%. Payment and current account, 1%; advisory and financing 4%; client hedging fees up 25%.

Fees in Italy increased 7.8%; Germany, 7%, excluding financing fees coming from very high base; Austria, 8.5%; and Central and Eastern Europe, 16.5%. The strength and diversification is by design. It reflects our strategic focus on building factories that can deliver resilient capital-light revenues across all regions, even in uncertain market conditions.

Our fee to revenue ratio climbed to 36%, a top-tier level among European fee -- peers. Our cost-income ratio improved to 35.4%, the best in our peer group, driven by disciplined cost management, combined with targeted streamlining. At constant perimeter, cost decreased 1.3% year-on-year, while maintaining our level of investment in our people, in our business and in our technology. Stated costs increased 0.6% year-on-year due to our first time consolidation of Aion-Vodeno and Alpha Bank Romania, which currently have cost-income ratios far above group average. As we fully unlock their revenue-generating potential, they will meaningfully contribute to our future growth and operational efficiency.

This quarter, UniCredit generated EUR 3.1 billion of capital organically and EUR 5.3 billion or 190 basis points overall. This absorbed the Basel impact of circa 60 basis points, 20 basis points less than originally anticipated. The distribution accrual of 100 basis points or 100% of the EUR 2.8 billion net profit, while further increasing our CET1 ratio 27 basis points to 16.1%. Excluding the share buyback accrual, CET1 ratio would stand at 16.6%. Our current CET1 ratio implies a buffer of EUR 8.5 billion to EUR 10 billion, so between 313 and 363 basis points above our 12.5% to 13% CET1 ratio target.

This is EUR 1 billion to EUR 2.5 billion above what we prudently define as our excess capital that now stand at circa EUR 7.5 billion. The difference includes both a proven buffer for other regulatory headwinds for more volatile items such as the gain from strategic investment, net of hedging and from Russia.

We have the highest level of excess capital in the peer group. This is a testament to the strength of our business model, highly profitable, highly capital efficient and able to fund growth, best-in-class distribution and regulatory requirement simultaneously.

Our capital discipline gives us both certainty and strategic optionality, whether for organic investment, share buybacks or potential inorganic investment. Our liquidity position is strong and sustainable. Our LCR and SFR above 140% and 125%, respectively, are sound and well above our peer average. Our loans-to-deposit ratio stands at 87%, notwithstanding our focus on the deposit pass-through, well below 100%.

In general, a higher loan-to-deposit ratio, not only requires relying on more expensive source of funding, but also correlates with increased liquidity risk, particularly during period of market stress or geopolitical uncertainty. We have reinforced our European leadership across all KPIs, widening the gap versus peers. The high-quality revenue growth, coupled with best-in-class operating and capital efficiency leads to unmatched profitability and capital generation.

Our 22% return on tangible equity is 7 percentage points higher than the average of our peers. It would be even higher if we normalize for our excess capital relative to them. We generate more than twice the capital organically than the average of our peers. We're confident we can widen this gap further. Our strengths and lines of defense, including our excess capital, are unmatched and derisk or boost our profitability and distribution going forward. Our structural advantages and the way we are leveraging them are the foundational elements of our success.

We operate a truly pan-European franchise that leverages scale with local depth. Our geographic footprint is balanced across 4 powerful regions: Italy, Germany, Austria and Central and Eastern Europe. This footprint allows us to deliver quality profitable growth and distribution regardless of local volatility. Our client base is well balanced between attractive SME, affluent and private clients and large corporate mass market clients that we approach differently. We leverage common platform and scale while tailoring products to each client segment.

Our business mix is supported by group factories that deliver best-in-class product tailored for local clients' needs. What we are seeing now is the real power of convergence across our regions and product factories, increasingly working together to create synergies and reinforcing each other's strengths.

Let me move to our regions. In Italy, our franchise continued to be market-leading by a wide margin across sustainable profitability, efficiency and capital generation. It is UniCredit quality earnings powerhouse, delivering impressive financial results as our transformation evolves from unlocking value to accelerating profitable growth. Gross revenues grew 1.4% to EUR 3 billion. Net revenue, 2.9%, driven by very strong fees up 8%, 2 percentage points more than each of our 2 Italian peers, more than offsetting a net NII decline of 1.6%, well below that of our 2 Italian peers.

Our continued focus on margin rather than volume led to the increase of our NII ROAC to 25%, significantly above peers. Fee growth was well diversified with standout performance of our investment and non-life insurance fees. Our fee to revenue ratio in Italy reached a top-tier 42%. We maintained a low cost of risk at 26 basis points, down 7 points year-on-year, reinforcing coverage and without touching our overlays. Our gross and net NPE ratio remained at 2.7% and 1.5%, respectively, with increasing coverage Q-on-Q. However, our net NPE ratio adjusted for exposure covered by state guarantees with a 100% enforcement success rate, unlike many other banks, would drop to 0.9% and be almost entirely covered by our Italian overlays. Effectively, we're almost a 0 net NPE bank in Italy.

Operational efficiency improved further to 32%. Costs were down 2.2% in spite of the continued investment in our people, business and technology. Capital efficiency improved with net revenue to RWA of 11.3%, up almost 1 percentage point year-on-year. The gap with the first and the third Italian bank increased to 0.5 percentage points and 2.5 percentage points, respectively. Profit before tax rose 70% year-on-year to EUR 1.9 billion, RoAC reached 37%, up 6 percentage points, the best in Italy by a margin. Organic capital generation reached EUR 1.6 billion, the best in Italy by a margin. As such, UniCredit was recognized as the best bank in Italy by IFR and the Global Finance Awards in 2025.

Our continued investment in and support of development of our people through UniCredit Corporate University provides them with new challenges, new opportunities and career longevity. We continue to invest in technology to further improve client experience. Our recently introduced UCX SME Lending platform provides a fully digital end-to-end lending journey for SMEs, side-by-side with UCX consumers for family.

We supported a number of innovative large corporate deals providing financial backing and strategic solution, reinforcing our role in enhancing the long-term competitiveness and resilience of core Italian companies. In the quarter, we facilitated over EUR 4.4 billion in financing in support of Italian SME client alone, as we target growth in this segment.

Our dedication to Italy is further underscored by the EUR 35 billion invested to date in UniCredit per Italia that remains unmatched, and our Italian government bond exposure that account for 64% of our Italian legal entity sovereign exposure above our Italian competitor. These bonds currently have a positive mark-to-market value, and we have benefited from this position throughout the cycle.

Germany. Our German bank continues to be the best performing in the country, increasing the gap versus peer. It is one of the 2 key anchors for the group and continues to deliver impressive financial results as its transformation evolves from unlocking value to accelerating profitable quality growth.

Gross revenues grew 3.8% year-on-year to EUR 1.5 billion. Net revenue grew 6.3% without releasing any overlays, with fees and trading mostly client-driven, more than offsetting the 2.5% decline in net NII. As previously indicated, NII in Germany is affected by the client-driven increase in trading volume, as we booked trading-related funding cost in NII and increase in rates and/or volumes negatively impact NII while benefiting trading by an equal amount.

When rates and volume decline, the opposite happens. As such, gross NII and net NII would have been up, respectively, 1% and 6% with trading up only 14%, assuming flat trading volume year-on-year. This performance is best-in-class in the country. Our 23% NII RoAC also remain the best-in-class in the country, increasing our lead versus our competitors as we focus on lending being significantly above our cost of equity in its own right.

Fees adjusted for financing fees are up 7% driven by investment, up 7%; insurance, up 11%; and client hedging, up 11%. The decline in financing fees masked that growth as they normalize from a very strong base in Q1 2024. Cost of risk is down to 11 basis points with no usage of overlays. Our NPE ratio is stable at 2.2% with proven coverage improving.

Operational efficiency improved further to 36%, widening the gap versus our closest competitor peer by 3 percentage points to 20 percentage points. Costs were down 1.9%, despite significant investment in technology and people. Capital efficiency improved further with net revenue over RWA of 8.7%, almost 1 percentage point higher year-on-year.

Profit before tax rose 12% to EUR 0.9 billion compared to a decline at our closest peer. RoAC ended above 26%, up 3.7 percentage points over the year, the best in Germany, widening the gap to almost 2x our closest peers. As a result, organic capital generation reached EUR 800 million, investing in and for all our stakeholder within Germany is at the core of how we operate.

We are the employer of choice with top employer certification for the 15th consecutive quarter. We achieved the highest NPS score among Mittelstand banks. A Germany's leading provider of FX hedging, together with those on recent commodities, we help protect the industry from volatility. We have been leading the defense and technology start-up sector and our German bank is well positioned to support this industry further. We hold a substantial share of our legal entity treasury portfolio in Germany, sub-sovereign bonds, a clear sign of our commitment to supporting regional resilience and public priorities.

Austria. Our Austrian bank continues to be the best performing bank among our Austrian peers. It is one of the 2 key anchors for the group and continues to deliver impressive financial results, as its transformation evolves from unlocking value to accelerating profitable growth. Gross revenue grew 1.9% to EUR 700 million, driven by strong fees, up 8.5%, with together with dividends more than offset the 8% NII decline. Fee growth was driven by investments, plus 19%; and insurance, plus 96%, leading to a 33% fee to revenue, the highest in the country.

Cost of risk remained positive due to repayments in performing loans with gross provision beginning to normalize. Operational efficiency remained at 39% with cost up 3.3% due to wage drift and a change in operating model that benefited the group but disadvantaged Austria due to its raising VAT. We continue to significantly invest in technology and people.

Our capital efficiency remained strong with net revenue over RWA at 7%, notwithstanding the 8.5% increase in RWAs, mainly due to Basel, partially offset by mitigating actions. Profit before tax declined 4.4% when adjusting for VAT accounting and higher bank levy versus 8.2% stated. RoAC remained high at 24.4%, 25.8% adjusted, the best among Austrian banks.

Organic capital generation reached EUR 400 million. Investing in and for all our stakeholders within Austria is at the core of how we operate. We were recognized as a top employer '25, extending green benefit and achieving the family-friendly employer certification for the sixth consecutive year. We advanced our technology initiatives, launching new self-issued credit cards, enhancing our mobile banking app with chatbot functionality.

Central and Eastern Europe. Our Central and Eastern Europe franchise continues to be the most profitable and efficient in the region. It is the growth engine of the group and continues to deliver impressive financial results as its transformation evolves from unlocking value to accelerating profitable growth.

Gross revenues grew 5% year-on-year to EUR 1.2 billion, driven by strong fees, up 17% and NII up 1.5%. Alpha Bank first-time consolidation, partially compensated for the significant drag of Hungary. The quality of our NII remains unmatched in the region, with NII RoAC at 25%. While competitors chase volume, we are maintaining discipline without sacrificing market share. The strong fee performance was broad-based and led to an increase of our fees to revenue ratio of 3 percentage points to 28%. Cost of risk remained positive due to repayment in performing loans with gross provision beginning to normalize. Operational efficiency remained best-in-class at 34% cost-income ratio, 32.9% excluding Alpha Romania. Costs were up 3.9%, excluding Alpha Romania, 13.8% stated, including Alpha Romania.

We continue to significantly invest in technology and people. Our capital efficiency remains best-in-class with net revenue over RWA of 8.6% and stable despite an 8% increase in RWAs due to the Alpha merger and Basel impact. Profit before tax was up 1%, 4%, excluding Hungary. RoAC remained excellent at 26%, 30% excluding Hungary. Organic capital generation reached EUR 600 million. We advanced our technology initiatives with fast and easy onboarding for small corporates in Romania and faster micro business loan approvals in Serbia.

Russia. We continue to work towards an accelerated ordinary wind-down of Russia, always within both the letter and the spirit of the complex legal, regulatory and sanction limitation. Our '25 targets communicated in the first half of '24 have already been reached last year. To better appreciate the impact of our action, we will comment the trends at constant foreign exchange starting Q1 2022.

Local deposits declined to EUR 1.5 billion, minus 82% and further down 7% Q-on-Q. Net local loans declined to EUR 1 billion, minus 86% and further down 20% Q-on-Q. Cross-border lending declined 94% to date, and we reached practically 0 in Q3. Cross-border payments declined 70% to below EUR 8 billion per quarter and a further down 20% this quarter. We are now almost exclusively in euros and U.S. dollar.

We have reduced the capital impact of a full write-down of Russia from circa 130 basis points on a 14% CET1 to circa 69 basis points on a 16.1% CET1 and maintain buffer in our excess capital to cover that. The 22 basis points increase versus previous quarter is solely due to ruble appreciation. We are compliant with applicable ECB targets and aim to continue our business compression in Russia, including a full orderly exit from the retail business by first half 2026. Product factories. Our product factories continue to drive differentiated quality growth. They delivered EUR 3.1 billion in gross revenues, up 7% year-on-year, with more than 67% of that coming from fees.

Individual Solutions grew 9%, driven by Investment up 13% and Nonlife Insurance up 10%. One markets, assets under management reached EUR 18 billion, well ahead of plan, with our own managed fund sales increasing by more than 50%. We are well on our way to increasing value chain retention to more than 80% by internalizing and accelerating sales of our own products. This will provide Alpha growth above and beyond the market.

Corporate Solutions grew 8% with fees up 13%, driven by Advisory and Financing and Client Risk Management. Client Risk Management grew 24%, testament to the value we add in supporting clients and the overall economy in volatile and uncertain markets.

Our model is scalable, capital-light, provides value and is integrated across geographies. These factories are not only revenue generator through continued innovation and margin expansion, they are also critical in supporting clients and cementing their loyalty. They will continue to be a critical part of our unlocking acceleration strategy through 2027 and beyond.

Q1 2025 marks the inflection point in our UniCredit Unlocked transformation journey. Between '21 and '24, we successfully unlocked trapped value by redesigning and streamlining our operating machine while rebuilding and reigniting our commercial machine. This allowed us to grow net profit significantly more than our peers, 2x in our calculation.

We have already shifted gear from unlocking trapped potential to unlocking acceleration. In Phase 2 of our strategy, we will optimize our operating machine and further accelerate our commercial one. Despite industry headwinds, we are confident to deliver on our ambition of circa EUR 10 billion net profit at over 17% return on tangible equity by '27 and to grow further from that base as macro normalizes in the outer years.

The impact from investment, both past, yet to fully crystallize and future, will build on our structural advantages and ensure further value creation. In the next 3 years, we will finalize unlocking trapped potential. We will continue to simplify, delay, streamline and change the way of working. We will finalize taking back control, boost investment in targeted technology and data enhancement and move into modernization, all to better support both our people and clients' journeys.

We will complete the re-internalization of our product factories, most notably insurance already in Q2 and strengthen the connectivity between them and the client through increasingly digitalized and integrated channels and motivated network. In parallel, we are accelerating our top line growth with differentiated strategies per client segments and per geography.

The aim is not just growth but targeted profitable growth with products that match client needs; distribution channel that puts choice in clients' hands; and data that powers personalization at scale. Our people and culture will continue to be central with sustained investment in empowerment, supported by simplification of processes and way of working and professional development delivered through Unicredit Corporate University.

We are building not just a bigger bank, but a faster, more agile, more client-centric one, fully aligned with our structural strengths and long-term ambition. These steps ensure that every euro we invest translate into structured long-term value creation for our clients, for our shareholders, for our people and for our community with no waste.

Our organic accelerator are already delivering, but their contribution will meaningfully increase in the years ahead. Initiatives like the internalization of our life insurance, the Alpha Bank integration in Romania, the very successful partnership with Alpha Bank in Greece and scaling up Aion-Vodeno are expected to contribute over EUR 400 million in additional net profit by 2027.

This initiative will not only more than offset the compression of lower earnings from Russia, but also substantially improve the quality of our earnings and the growth potential after that. Aion-Vodeno allows us to profitably enter new markets such as retail and SMEs in Poland, where we signed up our first corporate deal.

We are also expanding in Western Europe through a mobile-first model with regulatory applications underway. Banking-as-a-serving is scaling supported by a EUR 100 million capital increase from the group.

In Romania, we've doubled our retail market share and added EUR 50 million in Q1 revenues alone. In Greece, we have successfully -- partners in trade finance, international payment and investment product with distribution of our One market funds well on its way to reach EUR 1 billion.

These are in projection. They are real tangible growth levers already producing results. They enhanced revenue quality, support profitability and future-proof our earnings trajectory. Today, we have also announced another important milestone in our transformation journey. We are partnering with Google to accelerate our transformation, moving our application to cloud.

This is a 360-degree partnership, well in line with our approach to build up a group ecosystem of best-in-class partners. It's a deep co-invested collaboration that is set to redefine how we operate, compete and innovate. Through Google, we are migrating our core system, our data and application to cloud, a move that will improve agility, reduce legacy complexity and enhance security. The migration is fully funded, delivering financial returns from day 1, while also decommissioning costly legacy infrastructure. On that basis, we maintain all of our cost commitments.

Finally, this partnership goes well beyond technology. Google Cloud is committed to supporting UniCredit's people development, embedding a new way of working and training to best adopt cutting-edge AI and analytics. Google also offers us new business opportunity, leveraging their ecosystem for several services.

Guidance. Thanks to a record-breaking first quarter, the transformation levers that drove it and our increased lines of defense, we're now upgrading our guidance for the full year 2025 to over EUR 9.3 billion at a return on tangible equity above 17%. We are, for now, maintaining the same conservative outlook for the rest of the year and expect the coming quarters to moderate with a decrease in net operating profit on a year-over-year basis, driven by an NII decline for the year, but we still expect to be above mid-single digits.

We, however, now expect net revenues to end up better than originally anticipated at circa EUR 23.5 billion, driven by stronger Q1 and a more benign cost of risk for the year. Our confirmed guidance on cost will lead to a lower NOP that will be compensated by the significant reduction in nonoperating charges in Q4, all leading to the net profit and return on tangible equity guidance above. Depending on the actual performance of the business in Q2 and the beginning of Q3, there may be scope for further improve of our guidance.

Distribution. We'll still exceed those in '24 and should further benefit from an increased net profit and organic capital generation. We reaffirm our '27 ambition, EUR 10 billion in net profit with return on tangible equity above 17% with annual distribution in excess of '24 for each one of the next 3 years. Our confidence is based on our financial strengths, a transformation leveraging our structural advantages, protected or propelled by our lines of defense.

As we close, let me reiterate what this quarter represents. This is the best quarter in UniCredit's history, and it is not a one-off. It is the culmination of 17 quarters of profitable growth and progression through disciplined transformation from streamlining our operation to reigniting our commercial engine and ensuring our bank has a sustainable growing performance in the future.

Every slide we've reviewed today points to a business that is outperforming peers' and our own expectations. We grow sustainably, while improving the quality of such growth. We lead on profitability, we lead on efficiency, we lead on capital generation and we lead on distributions.

Our vision is clear. Our strategy is working. Our execution is disciplined. We have more value to unlock and more lines of defense to protect or propel us than any other peer. Looking ahead, we are focused on acceleration, leveraging our platform, scaling our products and unlocking further value through organic growth and selective strategic moves.

We have inorganic possibilities in each one of our markets, some are visible, some are not. All can be closed by us, but we will close only those that add value to all of our stakeholders and, in particular, to our own shareholders. We are proud of what we've achieved and even more confident about what's to come. We're excited about our unmatched stand-alone profitable growth and distribution story.

The resiliency and growth of our earnings and dividend per share trajectory are evident and superior to boast the average of the sector and those of peers with the highest valuation. The combination of these and the level of our current valuation, even before considering our significant lines of defense, makes our investment case compelling.

Thank you very much, and we're now open to questions.

Question-and-Answer Session

Operator

[Operator Instructions]. The first question is from Andrea Filtri, Mediobanca.

Andrea Filtri

I've got 2. First, on guidance. How much of the potential upward revision of guidance on net revenues is from provisions and trading and how much from fees and costs?

The second, inevitably, on M&A. The press report you're potentially reconsidering, the [indiscernible] that the Commerce Bank option would face similar political hostilities in Italy and that you could consider refocusing elsewhere. Can you help us make sense of this, please?

If you put generic strategic objectives and you rank them according to the following, give us an idea of how you would rank them: first, fostering local distribution; secondly, expanding distribution to new markets; third, fostering or recomposing product factories and wealth management distribution.

Andrea Orcel

Sorry, just trying to keep up, Andrea. Okay. So guidance. Let's put it this way. This quarter, you can take consensus, we can take our own expectation. We are EUR 400 million to EUR 500 million of net profit ahead of where everybody expected us to be. Those EUR 400 million to EUR 500 million of net profit are due to the following factors: a significant beat on core revenues with fees doing significantly better than we expected and NII doing exactly as we expected.

Secondly, trading that was benign. And this trading benign, as we said, was linked to 2 pieces. One, the support of clients through our client risk management in FX rates and commodities, but is up 25% and is booked mostly there. And secondly, treasury and strategic portfolio performance.

So finally, we had cost a little bit better than expected, cost of risk significantly better than expected and that takes you to the bottom line. So to answer your question, I would say the way we look at it is, if I take fee plus NII, the dynamic for the year will be better just because I have had a Q1 that is better and I'm maintaining my expectation for the next 3 quarters.

I have also said that we may increase our guidance further. And the reason why we haven't gone further now is because we want to see in such a volatile environment what happens. But if some of the trends we're seeing are capped, the core revenue beat will be better, not necessarily for NII, but for the combination of the two. We don't know that yet, and it's not prudent to assume it yet, which is why we keep the NII projection to where it is and we keep the fee trajectory to where it is, except Q1 where we are above.

The cost of risk is a significant positive. We see our portfolio performing better than expected. We have had to do nothing on overlays. We thought we would need to use them at some point for the time being, that point is far away.

And so if I summarize, the significantly better first quarter in fees and cost and provision because we bundle provision with NII, looking at them separately, in our opinion, is not correct, brings us to do 2 things; one, I already made the quarter, so I'm better through the year, even if I am in the same trend line for the next 3 quarters.

Two, I'm madly optimistic depending on the uncertainty of this environment. And if that optimism becomes confirmed by fact, those 3 things will continue to contribute further. If they don't, most of the beat is first quarter, partially fee, cost and provision; and the trading, I don't think there will be a repeat of a significant overperformance of trading of this quarter because a lot of things went in one direction.

The volatility pushed, very hard, client-driven trading in hedges, the strategic portfolio hedged, crystallized some gain, which we may lose or not, and the treasury did well. So I would say, a long answer to say I think fee and cost plus provision are the main driver. Trading is a one-off, in my opinion, and is going to go back to the trend line.

On M&A, using your word, political hostilities refocusing everywhere else. Firstly, I think I'm not saying something very new by saying that in the recent times, all governments have taken a much keener look and roll into M&A. You see that across Europe from Spain to Italy to Germany to Hungary, everywhere.

So it is a fact of M&A. I think to an extent is a justified fact as government want to make sure the transaction are done in a way that support the economy and support people. And on that, I completely share the view. Maybe the implementation, we could have a different view of how we would implement to achieve that role. But that is a fact.

And I would say that it is a fact in most, if not all the countries where we operate today and not only in Europe. So we have -- as we said from day 1, it is our job to identify M&A opportunity or inorganic investment opportunity in every market we operate and in the market we told you we're interested in. And we have.

We have a list, they are analyzed. We know what they are. Why aren't we closing them? They're not in the best interest of our shareholders. When they become in the best interest in the shareholder, we will close them. If not, we will not. We do not have pressure to close M&A because our stand-alone trajectory is already well above the peer group and our valuation is below the peer group. So we have a lot of work to continue to demonstrate to our shareholders that we deserve to align, and we will perform better than peers.

If that -- when that performance finishes, which at the moment, I do not see in the next 3 to 4 years, we may have pressure on M&A. But at the moment, we have none. So we look at M&A or an inorganic investment on a very cold basis .Do they strengthen our franchise and, and I underline the and, do they increase the value we create for our shareholders, risk adjusted? Some do, some don't, and that's where we are. And as we look at our share buyback, we will look at M&A, we will look at our inorganic option.

You asked me to rank. Let me see if I can make back where you ask me to rank. I think I had local distribution, new markets and factories. Okay. So if I ranked, so this is if, we clear hurdles, if we clear hurdles, okay, so assuming they all return the same or risk-adjusted means that non-risk-adjusted any M&A or investment needs to return more than buying my own stock.

I would say new market, meaning M&A -- geographic M&A, call it this way, in any market where we are or the one immediately close to us, as I have mentioned, Poland, more than once. Secondly, strengthen of our factories. Thirdly, buying back our own stock.

And why is that? Because if I clear the hurdles, doing this investment and M&A will elongate the period in which we can add value. We think we have an unmatched blueprint to extract value from banks and from what we do. And if we have the opportunity to do it profitably, in the interest of our shareholders, we will. But at the same time, and I want to be very clear because I keep on saying that and maybe it's not getting through.

I've done M&A for a long time, and I have seen massive destruction of value by management team and companies that put pressures by media, by short-term views, by speculation, do transaction and from the next day, they need to repair the damage for several years. I will not do that, and I'm very patient and calm and the Board is completely aligned. So we find the right transaction, we will do them faster than you can believe. We don't find them, we will execute our own plan.

Operator

The next question is from Marco Nicolai, Jefferies.

Marco Nicolai

So if I look at the headcount direction, this quarter, it declined about 1% year-on-year. So it seems this decline is somewhat stabilizing from larger decreases we had in the past. Although there also -- there were also perimeter changes in the last couple of quarters. So what trend are you expecting in headcount going forward? And any -- related to this on the cost base, any read across from the partnership with Google that you announced today?

And secondly, on common equity Tier 1, the capital was stronger than expected this quarter. Can you please just give us more color on the 67 positive elements excluding this 23 basis from the FX hedge? And also, if we need to keep in mind anything for the next quarter beyond the organic capital generation and distributions?

Andrea Orcel

Thank you, Marco. So let me take it first and then Stefano will complete. So we do not have a focus on FTE reduction, never did, never will. We have a focus on cost efficiencies. FTE reduction leads people to move core activities outside of the perimeter of the bank, and then say we have reduced FTEs as opposed to invest in their people and internalize activities that we push outside of the bank.

So a lot of our cost reduction has been done by reinternalizing activities that were pushed before. Having said that, we have had significant number of people leaving on a net basis due to what is physiological in Central and Eastern Europe and retirements of people where we pay their old pass to pension because this bank had not touched certain categories for years and had not hired young people for years.

As we hired young people, we were able to replenish our pyramidal age, and therefore, exit, let's say, more expensive people that were at the end of our career and the wish to exit, and reinvesting on younger people that were at the start of a career. So if you do that and you reinternalize, maybe your headcount does not decline as much as you would think, but the cost per head and the efficiency per head goes up materially.

So we don't track FTE reduction. We track cost of HR reduction vis-a-vis what their efficiency is and we tracked non-HR cost. Another thing that you should consider is that we are not here to reduce cost 1 quarter, 2 quarters, 3 quarters, 4 quarters. We have been reducing cost for -- now I have lost count, but probably more than 10 quarters. Our objective is to have a grip on cost to keep it under control, to not let them deviate and focus on efficiency.

I have no problem if I can grow twice as much if I need to let go on cost, but my cost to income ratio and our efficiency is what's driving it. It is also true that as of today, we are gradually shifting our attention on non-HR cost, which are one matter that all of us should look at because inflation is having a significant impact on those. So my general answer is, look at cost, we're going to keep them broadly in line, not one quarter but for the next 3 years. And that is a massive achievement, and we have a lot of variables that we need to look at.

What is read across from Google partnership? I would say, like every other partnership like the MasterCard partnership and like many others we have done with Alpha, for example, these are not providers, distributor or client provider relationship, they are partnership.

So with Google, we will together transform the bank. With MasterCard, we will together transform payment. With Alpha Bank, we will together create value from them distributing our products and we manufacturing them. So we want to do more of those. It creates an ecosystem and it creates the right motivation from our partners to see us successful and for us to see them successful.

On the CET1, this -- and then I'll pass to Stefano. So we -- I would look at it that way. They're about 50 basis points that are -- I don't know if you want to call them one-off or you want to call them more volatile, which is why if you see, we have created a buffer in our excess capital. About half of those come from the ruble appreciation in Russia and the other half comes from the overall performance of our strategic portfolio including hedges, and I underline including hedges because hedges are an excellent things when things go badly, but they cost money when things go up.

Now Monday morning quarterbacking, today, we would all like not to have hedges. But my job is to create consistency over time. Therefore, we are hedged versus we had a positive outcome, but not as positive as it could or would have been. As you have seen, our total capital has moved from 6.5% to 10%. But specifically because we have more volatile area in our capital generation, we have limited the one we are committing to return to you to EUR 7.5 billion keeping a buffer of EUR 2.5 billion. If we consolidate those performance and those risks go away or decline, there is EUR 2.5 billion that are sitting there to be used. And that's the total, but I will pass it with Stefano.

Stefano Porro

Thank you, Andrea. So adding a point on the reduction of the headcounts. Marco, you're referring to a reduction of the total headcounts in terms of FTEs of 1% year-on-year to consider the change in the perimeter. So it's important to have a look at that also when you look to the future because we had the change of Alpha Romania and Aion-Vodeno, so if you would adjust for these changes, the reduction of the FTEs would be year-on-year equal to minus 4%.

Clearly, as highlighted by Andrea, we're looking to the trend of the overall cost, not just for the FTE, but you can assume that in order to be able to keep costs slightly down also in the course of the following years, excluding the effect from the perimeter, we will have to reduce also the headcount component, clearly, not at this path, we will keep on optimizing and a consequence 3 that, reducing also the headcounts component in future. With regards to the capital impact in the first quarter and more specifically in relation to the line -- to the part of the capital walk called PD Scenario and Other Items.

So first of all, there is fundamentally no impact from the PD scenario, it's just, let's say, around 1 basis point. So that's not material. What is material is capital reserves, around 26 basis points out of that is the ruble appreciation, okay? Then we have around 10 basis points deriving from fair value through OCI reserves, so the reserve that we have related to the mark-to-market of bond investments and pension funds, okay?

So this is positive for around 10 basis points. Then there are 2 other important elements. One is tax loss carryforward and intangibles. Deposit effect is around 15 basis points. Tax loss carryforward is related to the Italian perimeter. At the beginning of the year, we had around EUR 4 billion of recognized tax loss carryforward that are deducted from the capital.

We will utilize this tax loss carryforward during the course of the next years. The total benefit of the capital for the future will be 120 basis points in the next 6 years. You can expect around something more than 25 basis points during the course of '25 from this utilization.

The final point is in relation to threshold deduction, which is threshold deduction. We have some deduction connected to the investment -- to the significant investment in financial sector entities. During the quarter, the capital improvements was such that this threshold deduction went down and went down for an amount of around 15 basis points, 1-5.

So wrapping up, 26 basis point is FX, ruble appreciation; 10 basis point is capital reserve, bonds, pension fund; 15 basis point, tax loss carryforward and intangible point; 15 basis point is this threshold deduction that I explained to you.

In relation to 2025, you have asked if there is something more to be taken into consideration? The answer is yes, is the effect deriving from model changes. We had around 6 basis points during this quarter deriving from Basel. We will have model changes for an amount around EUR 8 billion during the course of the remaining quarters of this year. For the rest, it will be capital generation through the business and also including capital efficiency actions.

Operator

The next question is from Delphine Lee, JPMorgan.

Delphine Lee

The first one is on capital, just a clarification. Do you mind just giving us the impact of the mark-to-market of the strategic stake, so Commerzbank and Generali, any others that were significant? Just to understand a little bit the P&L impact on trading and what went through CET1.

And my second question is -- sorry, just to come back on M&A. Could you just help us understand a little bit sort of what -- on the time line of the Banco BPM transaction, I mean, how should we think about it? And when do you think we'd be able to share a bit more? And what are the kind of main discussion points?

Andrea Orcel

Okay. Thank you, Delphine. So capital, strategic portfolio. As we said, the impact, 25 basis points positive. Impact on trading, minus 40. Why minus 40? Because -- minus EUR 40 million sorry, minus EUR 40 million impact on trading, minus EUR 40 million. Why? Because part of a stake, the almost 10% we announced when we bought the stake from the government is not going for trading, is going through -- directly through equity.

So we are hedged 100%, and the move of those hedge are 100%. So if everything goes up, the up from the part that is in our -- that goes to equity, you don't see it through trading, you see directly to capital, while the up of the -- all of the hedges -- well, the impact of all the hedges that in this case were negative, you see them in trading.

So the hedges are only matching in the P&L, let's call it, rough-cut 3/4 of our underlying because 1 quarter -- sorry, 2/3 of our underlying because 1/3 goes directly to equity, and that's the asymmetry. And as we said, we had a good performance overall to capital. but we're not taking that as a performance that will stay there. It's more volatile. It depends on the market. So for the time being, we're happy we're hedged, we stay where we are.

And then Stefano may add a few things on that, if there are.

On BPM. So on BPM, let me recap, so we all see where we are. We made an offer in November. At the time of the offer, we were very clear that we felt there was uncertainty around Anima, and therefore, we were not going to pay for that uncertainty. And we would -- we were doing -- we were offering a 15% -- 20% when you include dividend, premium to shareholders and on undisturb on Anima.

After that time, we obviously realize that given the timing of the offer of BPM, we would not be able to do the share buyback of EUR 3.6 billion until after closing BPM or not doing BPM. But if we do BPM, the shareholders of BPM get their share in the share buyback of UniCredit 2024. That's another 6%.

Then after that, we realized that in order to align the asset quality of BPM to ours in Italy, we need to do another EUR 800 million of provisions, EUR 550 million after tax. That's another 6%. And then we got Anima, which we were very right to ignore because Anima, depending on what you want to evaluate, destroyed value between EUR 1 billion and EUR 1.7 billion in the bank.

Indeed, if you look at their capital projection, now with Anima in, the share buyback is gone, and they need to climb back to a decent level of capital. Capital, excess capital that we were paying for in November and now was deployed at an 11% return, which if I did with my own share buybacks or with my own investment, I would derate.

So if you put them all together and you can do the math, you find easily between a 40% to 50% premium to where they were before we made the offer. If you look at it in another way, you find that we are trading at more or less the same multiple, but if you adjust for the lower CET1 for the lower coverage of the loan book and for our excess capital, and EUR 3 billion of P&L buffer, but they do not have, you find that they're trading at more than 30% to 35% PE gap to us, which brings you back to a similar number.

So we start from a situation where we have the right to evaluate the situation, to analyze what is happening because I would add another thing: when you buy a factory and that factory distributes through other banks, other banks' appetite to distribute the product of that factory usually goes down, not up. And therefore, we need to look at that. And we have time, we have a right to have time. So we were evaluating that situation until we got golden power.

We got golden power, although its content are supposed to be secret. I understand they are widely public in the press. So you can make your own opinion on that. There are a number of elements in the Golden Power that are, in our opinion, not clear and not intended. We're trying to clarify them.

We need to go through that before we take a definitive decision. So we will get either clarification or not. If it's not, we will need to make our own interpretation of what the golden power indicates. When we get all that, we will make a decision. But for the time being, we have no pressure. We have patience like on everything else, and we will wait.

Stefano Porro

So adding 2 elements to what Andrea just said on the strategic portfolio, i.e., all the exposure and the related hedging of Commerzbank and Generali. So the effects are some of them in P&L, top line, mainly in the trading, some of them through equity and some of them in risk-weighted assets.

So the sum up of all this effect in the quarter brought to a positive capital contribution of around plus 25 basis points of Common Equity Tier 1 ratio. The overall risk-weighted asset consumption of this investment is something more than EUR 2 billion for, let's say, an overall capital absorption between 10 and 15 basis points.

Operator

The next question is from Britta Schmidt, Autonomous Research.

Britta Schmidt

Yes. On net interest income, I hear that your full year guidance is largely reiterated, maybe you can explain a little bit what drove the decline in Austria? And also with regards to the replication portfolio, I think you previously guided to 0 or possibly a negative impact in 2025, does that still stand?

And then secondly, on the more than EUR 400 million benefits expected in net profit 2027, I think it's Slide 21 of the presentation, can you give a little bit of color as to how that would split across revenues and costs? And then also on the life insurance JVs, it says the merger is expected by 2026 completion by end of 2025, do you expect there to be any consolidation benefits in 2025 or will this now be 2026?

Stefano Porro

Yes. So in relation to the net interest income trends. So net interest income trend of Austria has been impacted from one, an overall trend of customer rate on the asset side and trend on the deposit rate on the deposit side. In relation to the customer rate on the deposit side, do consider that there was a reduction of the pass-through, but the reduction of the pass-through will take further because, especially in Germany and Austria, it takes time in order to reprice down because we do have also term deposits. .

So all in all, the expectation is that the net interest income trend should improve during the course of 2025. The more we are able to reprice down on the deposit through the reduction of the rate on term deposit and we get more traction in terms of lending trend. Having said that, in relation to the lending trend dynamic, while we are expecting an increase of the lending trend for the group in terms of stock, something more than 1% of increase of the stock of loans during the course of this year, such an improvement will come mainly from Central Eastern Europe.

We will have a slight improvement around 1% year-on-year from Italy and Austria and slightly down in Germany. So the trend of Austria in terms of net interest income will be better during the course of final part of the year and especially during the course of 2026.

In relation to the replicating portfolio, the replicating portfolio has been increased during the course of this quarter. So if we look at the end of the quarter in comparison with the end of the year is up EUR 7 billion. The average is slightly below EUR 180 billion and for an average duration of around 5.

The yield is around 1.2%. The contribution in the next 3 years, simply deriving from the rolling of the replicating portfolio, so between '27 if you look in comparing with net interest income from replicating of '24 is around EUR 500 million. That's backloaded, so it's not front loaded with the majority of the contribution in '26 and especially in '27.

With regard to the consolidation. So in relation to the consolidation, we have mentioned the effect deriving from Alpha and Aion-Vodeno. So if you look in relation -- in terms of change of perimeter, so that is not a meaningful impact from a consolidation standpoint. The majority of the synergies in relation to Alpha Romania will come second part of this year and next year.

The cost base of Alpha Romania is around EUR 100 million. So if you need to take this into consideration, do consider EUR 100 million with the synergies that will kick in second part of the year and especially last year. So the cost base that we'll have from Alpha Romania next year will be lower than a base for a year that you can consider equal to EUR 100 million.

In relation to the -- I mean, you mentioned the EUR 400 million, right, so in 2027, deriving from the different perimeter, i.e., from the insurance around EUR 100 million; from Alpha Romania around EUR 100 million; and from Aion-Vodeno that is more than EUR 200 million.

So in relation to this, I believe that it's important for you to take into consideration the effect that are very, very much differentiated. So if you consider the current cost base for this year, the current cost base for this year deriving from the sum up of this perimeter will be around EUR 250 million for a revenue base that will be around EUR 400 million.

This will be progressively going up with synergies already in '25 and '26 from insurance and from Alpha while the progression will be more backloaded if you want from Aion-Vodeno standpoint in the sense that you can expect a contribution equal fundamentally to the bottom line of 0 this year, progressively going up, but with definitely a higher amount in 2027.

Operator

The next question is from Pamela Zuluaga, Morgan Stanley.

Pamela Zuluaga

The first one is around excess capital. You said that you're not in any pressure to do M&A in the following 3 to 4 years at least. With that in mind, how are you thinking about excess capital and your commitment to address it by 2027? Will you begin distributing some of the excess every year from now on? Or maybe is the target for 12.5%, 13% CET1 ratio further pushed beyond 2027?

And the second one is a follow-on -- so follow-up, sorry, on your comments around NII before. You flagged that you had a lower pass-through this quarter versus Q4 2024. Did you already anticipate this positive trend on your NII guidance of moderate decline year-on-year? Or is there upside to your expectations if pass-through indeed continues falling?

Andrea Orcel

Okay. So on excess capital, our commitment remains the same. So we will return our excess capital above 13% CET1 by the end of 2027, that does not change. What I said on M&A is no pressure just to compare it to the widespread belief that if one launch an offer or buys a stake, one needs to buy at any cost and at any condition of the transaction. We are not bound to do that.

If we can, and I responded to, I think, Andrea Filtri's first question. If we have the conditions that are right, we will do M&A above and beyond share buybacks, just because from a return standpoint, it makes sense. But if from a return standpoint, it doesn't make sense for our shareholders, we will not. So in order to answer your question, I think the excess capital above 13% where we keep an appropriate buffer that buffer may reduce if some of the volatile elements, either eliminate or addressed and therefore, the capital may go up from that level, we will return it by '27 or profitably employed by '27, profitably employed, it means making inorganic investment or acquisition that clear the hurdle of our share buyback and all the other metrics that we have given again and again and again.

So the probability that it goes in M&A as opposed to share buyback depends on the possibility to do transactions that clear our hurdles and add more value to our shareholders than buying our stock back. It's completely linked to that, and we will be either very fast in doing them or not doing them, depending if we get that or not. On the second, I'll pass to Stefano.

Stefano Porro

Yes. So in relation to net interest income, so some ingredients, which are our assumption rates wise, so we're expecting to have a deposit facility rate of ECB at -- so below 2% at 175 by the summer, meaning that the exit Euribor will be below 2% clearly by year-end.

So we are currently assuming 1.8%. Overall, average Euribor for the year at 2.1%, which is the net interest income sensitivity, so plus/minus 50 basis point Euribor is plus/minus EUR 300 million. The deposit pass-through sensitivity is 1 percentage point is EUR 100 million, which are our assumption in terms of the deposit pass-through.

We closed the deposit pass-through for the group, excluding Russia, is around 33%, 3-3, and we were at 34% same perimeter at the end of Q4. We are currently assuming to be slightly better. So we are currently assuming to be at around 32%. So with this assumption, we are expecting to have a moderate reduction of the net interest income as guided for high single digit.

So it's something more than the mid-single digit. Clearly, if they pass through, reduction will be better than what we are assuming, as I told you before, a relation to Austria and Germany, we are currently assuming a reduction of the pass-through in Austria and Germany, for every percentage point net interest income can be better on an annual basis for around EUR 100 million. So in compared with our assumption, if this will happen, that can be a tailwind.

Operator

So this was our last question, I turn the conference back to the management for any closing remarks.

Andrea Orcel

Thank you very much for your time, and we'll see many of you during the road show. Thank you very much.

Operator

Ladies and gentlemen, thank you for joining. The conference is now over, and you may disconnect your telephones.

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